

Hornbeam

Business Valuation Services



DID YOU KNOW THERE ARE 4 TYPES OF BUSINESS VALUERS?

What follows is a humour piece, intended to stimulate thought and satirize bad practice. All characters are entirely fictitious. If offense is given to any individuals or firms, then I apologise unreservedly.

Let us begin with the first type of Valuer

The Business Sales Agent

Most businessmen and women come across business valuations (if they come across them at all) when they are performed by a Business Sales Agent.

The characteristics of Fred the Business Sales Agent include:

1. Valuations are performed free of charge.
2. Valuations are performed on the back of an envelope or a computer programme from scant information; and then doubled.
3. The customer is convinced that Fred can sell his business for this amount if he signs an exclusive sales contract, and pays a non-refundable deposit, against a substantial success fee.
4. Having carried out the valuation and signed up the customer that is probably the last that is heard of Fred.

There are variations on this theme:

1. A computer collects information from companies house.
2. The computer performs a valuation.
3. The computer mails this out to the directors, probably also assuring them that there are many businesses looking to expand in their industry.
4. The customers are encouraged to put their details on the company's sales website. They sign an exclusive sales contract and pay a non-refundable deposit.

There are probably two or three combinations of the above, for example; the computer does the mail-out but Fred arrives in person and promises an individual service, or Fred comes in person and promises to sell the business on the website.

It is difficult to tell if Fred has much interest in earning his success fee or is happy to live on the up-front fees.

Secondly, The Specialist Department of the Big Firm

These people are some of the smartest in the industry, in any industry.

Bill, for example, knows that if he sets his assistant to research the average dividend yield of quoted companies in the same field as his client, this can easily take 20 hours and at £200 per hour he can charge £4,000 for it.

If on the other hand a senior must do the research and calculations to find the discount rate using the capital asset pricing model this can easily take 100 hours and at £300 per hour and he can charge £30,000 for this.

And of course there are lots of components to preparing a valuation at this level.

Bill knows, of course, that a valuation is an exercise in judgement and can never be correct as such. None the less very large sums of client's money turn on the outcome of the valuation. He therefore prefers to hedge his bets settling on a range of values, usually somewhere between £0 and £infinity.

Thirdly, The Small Practitioner

Now, when the client is writing a co-shareholder agreement it seems a great idea to Steve that the agreement states that the market value shall be set by "The Accountant". But in practice Steve gets asked to value businesses once in a blue moon.

Typically the request will come in January when Steve is up to his neck in tax returns, or March when he is just starting his biggest job, or July when he is just going on holiday.

Steve spends most of his time recording what has happened, valuing future cash-flows is well outside of his comfort zone. So the job gets set aside whilst he reminds himself of valuation practice (probably by finding the last valuation file). Steve needs time to think about what he wants to say.

And The Fourth Kind

If you would like to find out about the fourth kind of business Valuer visit <http://www.hornbeam-accountancy.co.uk/valuations>

Contact Us

If you would like to discuss a business valuation needed by one of your clients why not phone me, Phil Needham on **01603 720424** or send an email to phil@hornbeam-accountancy.co.uk

Yours faithfully

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